

# South Carolina Retirement Systems

A Division of the South Carolina State Budget and Control Board

## Popular Annual Financial Report

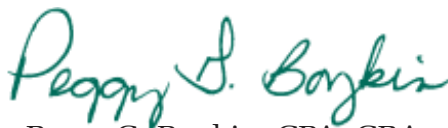
For the Fiscal Year Ended June 30, 2003

Pension Trust Funds of the State of South Carolina



## To Our Members

It is an honor to present to you our first annual popular report. This report is intended to provide a summary of annual financial information in an easily understandable format and supplements our more thorough *Comprehensive Annual Financial Report*. All data presented in this report is in accordance with Generally Accepted Accounting Principles, where applicable. If you would like more information concerning our financial activities, please visit our Web site at [www.retirement.sc.gov](http://www.retirement.sc.gov), request in writing a copy of the *Comprehensive Annual Financial Report*, or contact Customer Services at 1-800-868-9002, 803-737-6800, or [cs@retirement.sc.gov](mailto:cs@retirement.sc.gov).



Peggy G. Boykin, CPA, CRA  
Division Director



Tammy B. Davis, CPA  
Assistant Director, Financial Services

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### Profile

#### South Carolina Retirement Systems

The South Carolina Retirement Systems administers four defined benefit pension plans, which provide lifetime retirement annuities, disability benefits and death benefits to eligible members. The plans' terms specify the amount of pension benefits to be provided at a future date or after a certain period of time. The amount specified is a function of a formula based on years of service, compensation and age. The South Carolina Retirement Systems also administers a defined contribution retirement plan, which is an alternative to membership in the traditional SCRS defined benefit plan. The five retirement plans administered by the Retirement Systems are as follows:

- The South Carolina Retirement System (**SCRS**) was established July 1, 1945, to provide retirement and other benefits for teachers and employees of the State and its political subdivisions.
- The State Optional Retirement Program (**State ORP**) was first established as the Optional Retirement Program for Higher Education in 1987. In it's current form, the State ORP is an alternative to the defined benefit SCRS plan offered to certain state, public school and higher education employees of the State.
- The Police Officers Retirement System (**PORS**) was established July 1, 1962, to provide retirement and other benefits to police officers and firefighters.
- The Retirement System for Members of the General Assembly of the State of South Carolina (**GARS**) was established January 1, 1966, to provide retirement and other benefits to members of the General Assembly.
- The Retirement System for Judges and Solicitors of the State of South Carolina (**JSRS**) was established July 1, 1979, to provide retirement and other benefits to State Judges and Solicitors.

The mission of the South Carolina Retirement Systems is to administer a comprehensive program of retirement benefits responsive to the needs of public employees and to perform fiduciary duties as stewards of the contributions and disbursements of the pension trust funds. Our vision is to empower our employees to provide comprehensive service in a professional manner for our members, employers, and retirees through timely and accurate processing of payments, claims, inquiries, and other account information using effective and appropriate leading edge technology.



Seated (left to right): Peggy Boykin, Gwen Bynoe. Standing (left to right): Ray Sharpe, Alan Pollack, Travis Turner, Tona Quinton.



Seated (left to right): Melissa Carter, Dianne Poston, Heather Muller. Standing (left to right): Robin Elliott-Jones, Sharon Hammond, Kathy Rast, Megan Reynolds.



Seated (left to right): Robert Williams, Brenda Williams. Standing (left to right): Jerome Smith, Sally Major, Stephen Van Camp, Robin Benson.

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Seated (left to right): Elizabeth Sorells, LaTonya Scott. Standing (left to right): Bucky Neese, Peggy Bostic, Jimmie Williams.

As of July 1, 2002, the date of our most recent complete actuarial valuation, our membership and annuitant population was composed of the following:

### Membership and Annuitant Composition As of July 1, 2002

	South Carolina Retirement System	Police Officers Retirement System	General Assembly Retirement System	Judges and Solicitors Retirement System
<b>Total Membership</b>				
Active	189,166	23,963	200	128
Inactive	141,313	8,675	68	7
Retirees & Beneficiaries	79,064	7,706	266	126
<b>Active Members</b>				
Average Age	44	39	52	53
Average Years of Service	10	8	13	16
Average Annual Salary	\$32,499	\$31,607	\$22,573	\$111,026
<b>Annuitants</b>				
Average Age	65	63	72	70
Average Years of Service	23	19	19	24
Average AFC <sup>1</sup> at Retirement	\$29,044	\$30,406	\$16,469	\$74,797
Average Annual Benefit	\$14,941	\$15,028	\$17,572	\$64,491



Seated (left to right): Ashley Nichols, Rosemary Tien. Standing (left to right): Faith Wright, Arlene Sohrabnia, Tammy Davis, Sarah Niegsch.

<sup>1</sup>Average Final Compensation, a factor used in the calculation of benefit annuities.



Seated (left to right): Jan Plowden, Jayne Edge. Standing (left to right): Audrey Clark, Bernard Barnes, Tammy Johnson, Geneva McIntosh.

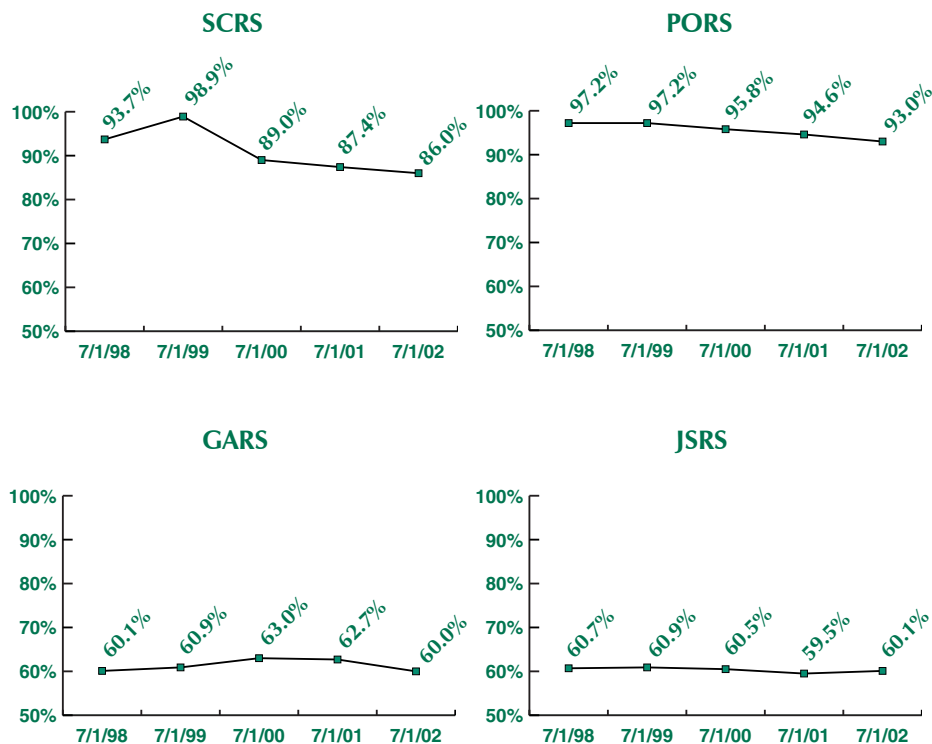
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It is our pleasure to confirm to you that your retirement plan is sound. Our defined benefit pension plans provide lifetime annuities to retirees and beneficiaries based on years of service and a legislatively adopted benefit formula. We judge the health of our system through actuarial valuations. Our actuarial consultants estimate our future liabilities and our future assets based on a variety of assumptions commonly accepted in the actuarial industry. The actuaries then estimate what portion of our future liabilities are not yet funded and how long it will take to fund them at current rates. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liability (funded ratio).

Governmental accounting standards require that the maximum acceptable amortization period for the total unfunded actuarial liability is 30 years. As of the July 1, 2002, actuarial valuation, all four systems are considered adequately funded within GASB standards. The current funded ratios of the four plans range from 60.0 percent to 93.0 percent, and the unfunded liability amortization period ranges from 15 to 30 years. The following chart illustrates funded ratios over the past five years.

### Funded Ratios

(Actuarial assets as a percentage of actuarial accrued liabilities)



Seated (left to right): Jennifer Dolder, Crystal Trapp. Standing (left to right): Judy Scott, Sheila Pinckney, Robert Sutherland, Maureen Carter.



Seated (left to right): Kim Lovell, Lisa Reupke. Standing (left to right): Linda Jacques, Phyllis Bradley, Cheryl Rabon, Linda Sightler.



Seated (left to right): Maggie Hendry, Miriam Jacobs. Standing (left to right): Donna Ashford, Marcia McLin, David McEachern, Katharine Fore.

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Seated (left to right): Lynn Johnson, Sharon Graham. Standing (left to right): Rob Heilig, Theresa Albergottie, Debra Jones, Bonnie Volious.



Seated (left to right): Glenda Suber, Steve Miller, Elisa Avagnina. Standing (left to right): Lori Black, Edward Holmes, Brenda Prudé, Danielle Quattlebaum, Marc Kimpson.



Seated (left to right): Lynn Boles, Shawn Holman. Standing (left to right): George Hazin, Glenn King, Bob Martin.

In order to ensure the Retirement Systems' ability to properly fund the payments of retirement benefits to members in future years, it is necessary to accumulate funds on a regular and systematic basis. The principal sources from which the Systems receive revenues are employee contributions, employer contributions and earnings on investments. Expenses of the Systems consist primarily of payments of monthly annuities to retired members and their beneficiaries and refunds of member contributions paid upon termination. Other programs administered by the Systems include a group life insurance plan for both active and retired members and an accidental death plan for police officers. Condensed financial statements for the fiscal year ended June 30, 2003 are as follows:

The *Statement of Plan Net Assets* presents the Plan's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snap shot of the Plan's investments, at market value, along with cash and short-term investments, receivables, and other assets and liabilities.

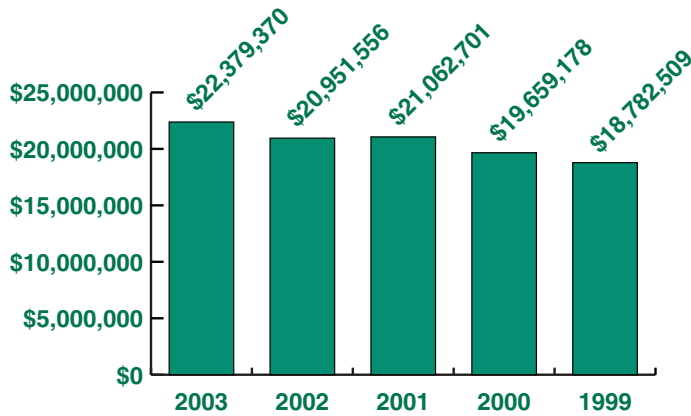
### Plan Net Assets June 30, 2003 (Amounts expressed in thousands)

	2003	2002	Percentage Increase/Decrease
<b>Assets</b>			
Cash & Cash Equivalents, Receivables, and Prepaid Expenses	\$ 3,173,518	\$ 3,027,811	4.81%
Total Investments, at fair value	19,694,444	18,219,578	8.09%
Securities lending cash collateral invested	3,912,893	3,174,643	23.25%
Property, net of accumulated depreciation	4,052	4,171	-2.85%
<b>Total Assets</b>	<b>\$26,784,907</b>	<b>\$24,426,203</b>	<b>9.66%</b>
<b>Liabilities</b>			
Deferred retirement benefits	\$ 424,906	\$ 229,590	85.07%
Obligations under securities lending	3,912,893	3,174,643	23.25%
Other accounts payable	67,738	70,414	-3.80%
<b>Total Liabilities</b>	<b>4,405,537</b>	<b>3,474,647</b>	<b>26.79%</b>
<b>Total Net Assets</b>	<b>\$22,379,370</b>	<b>\$20,951,556</b>	<b>6.81%</b>



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The following graph reflects Plan Net Asset values over the past five years (amounts expressed in thousands):



The *Statement of Changes in Plan Net Assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, group life insurance payments and administrative expenses.

### Changes in Plan Net Assets For the Year Ended June 30, 2003 (Amounts expressed in thousands)

	2003	2002	Percentage Increase/Decrease
<b>Additions</b>			
Employee Contributions	\$ 465,709	\$ 472,490	-1.44%
Employer Contributions	607,499	606,272	0.20%
Investment Income	1,859,758	190,007	878.78%
Other Income	4,350	5,455	-20.26%
<b>Total Additions</b>	<b>2,937,316</b>	<b>1,274,224</b>	<b>130.52%</b>
<b>Deductions</b>			
Total Annuities	1,405,309	1,278,304	9.94%
Refunds	71,657	75,303	-4.84%
Group Life	16,366	15,119	8.25%
Administrative & other expenses	16,170	16,643	-2.84%
<b>Total Deductions</b>	<b>1,509,502</b>	<b>1,385,369</b>	<b>8.96%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>1,427,814</b>	<b>(111,145)</b>	<b>1384.64%</b>
Beginning Net Assets	20,951,556	21,062,701	-0.53%
<b>Ending Net Assets</b>	<b>\$22,379,370</b>	<b>\$20,951,556</b>	<b>6.81%</b>



Seated (left to right): Dianne Smith, Marcia Kresslein, Rita Young, Shermell Lee. Standing (left to right): Sandra Goodwin, Mary Savage-Prince, Terri Watts, Sue Aull, Earnestine Coles, Lauren Chandler.



Seated (left to right): Cheryl Sanders, Amy Price. Standing (left to right): Burl Sims, Wayne Jowers, Sandy Coley, Jeff Argondizzo.



Seated (left to right): Paulette Lomas, Mary Jeffcoat. Standing (left to right): Betty Wilson, Rosalyn Keller, Kathy Fallaw, Chris Pastelak.

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Seated (left to right): Mary Benson, Teresa Sutton. Standing (left to right): Karen McAdoo-Long, Phil Graham, Sylvester Peoples.

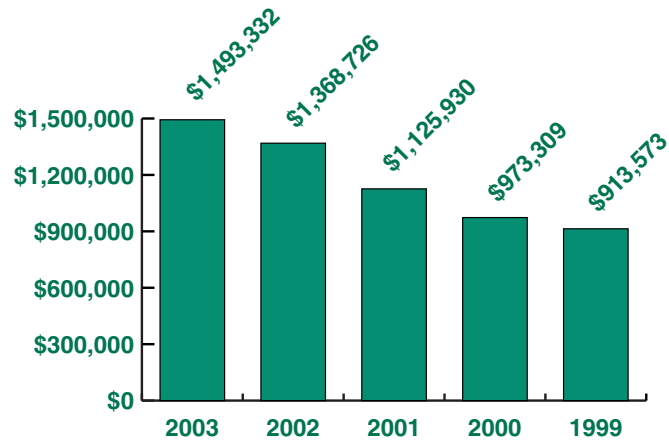


Seated (left to right): Jan Robertson, Susan Vincent. Standing (left to right): Dixie Dale, Marian Tucker, Glasgow Pleasants, Margaret Webb.



Seated (left to right): Evelyn Chavis, Brenda Smith, Jenifer Reeves, Jamella Williams. Standing (left to right): Carol Funk, Alice Copeland, Rebecca Wallace, Ronald Davis, Donnie Fulmer, Joe Stone.

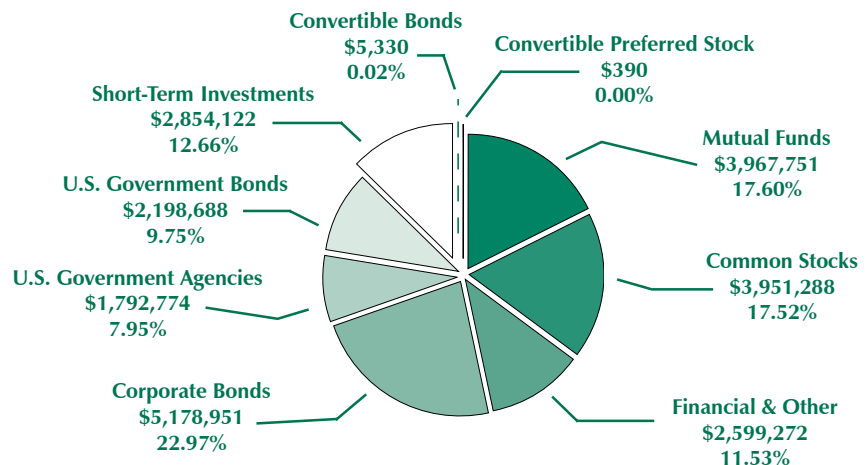
The following graph illustrates benefit expenses paid over the past five years (amounts expressed in thousands):



We have a diversified investment portfolio that is designed to provide long-term returns. The custodian of our assets, the State Treasurer, and the Investment Panel work diligently to ensure our investment strategy is pragmatic and conservative, while providing competitive returns. For the year ended June 30, 2003, the combined Systems investment portfolio produced a total return, net of expenses, of 8.9 percent, compared to a combined return of .92 percent for fiscal year 2002. Our investment return exceeded our assumed actuarial investment return of 7.25 percent, which will have a positive effect on the next actuarial valuation of the Systems.

The following graph illustrates the types and amounts of investments held by the Systems at June 30, 2003.

### South Carolina Retirement Systems Schedule of Asset Allocation Market Value as of June 30, 2003 (Dollar amounts in thousands)





## 2003 Popular Annual Financial Report

Below is a summary of our financial highlights for fiscal year 2003:

- In both fiscal year 2002 and fiscal year 2003, the South Carolina Retirement Systems was recognized by *Pensions & Investments*, The International Newspaper of Money Management, for having the highest one-year investment return of surveyed public pension funds.
- Plan net assets of the four pension trust funds administered by the South Carolina Retirement Systems increased by \$1.42 billion during fiscal year 2003, compared to a decrease of \$111.1 million in fiscal year 2002. This increase was due primarily to the strong performance of our fixed income investments, which contributed to our combined investment return of 8.9 percent for the four pension plans.
- State legislation effective July 1, 2002, expanded eligibility for participation in the State Optional Retirement Program (State ORP), which is administered by the South Carolina Retirement Systems. State ORP is a defined contribution plan that serves as an alternative to membership in the traditional South Carolina Retirement System (SCRS), which is a defined benefit plan. Expanded State ORP eligibility includes employees hired into full-time permanent positions with state agencies, institutions of higher education, and public school districts. As a result of this legislation, participation in State ORP increased during fiscal year 2003 when compared with the previous fiscal year.
- The deferred retirement option program, known as the Teacher and Employee Retention Incentive (TERI) program, which was initiated January 1, 2001, continued to experience great popularity among our membership during fiscal year 2003. The TERI program allows a member to accumulate a tax-deferred monthly retirement benefit while continuing to earn a salary from full-time employment. The Retirement Systems holds the accumulated TERI retirement benefits in trust for the member, thus creating a liability for the Retirement Systems. The amount of assets held in trust for future payment increased by 85.07 percent during the fiscal year. This increase is a result of both a growth of approximately 2,700 new participants in the program during the fiscal year and the continued accumulation of benefits deferred on a monthly basis for all participants. During fiscal year 2003, a legislative bill was proposed in the SC General Assembly to repeal the TERI program. Although no action was taken on the bill, its introduction contributed to the large number of new participants taking advantage of TERI.
- The number of active members in the South Carolina Retirement Systems decreased in fiscal year 2003 when compared with fiscal year 2002. The change resulted from increased State ORP participation, increased number of retirees returning to work (due in part to TERI participation), and as a result of continued state



Seated (left to right): Pat White, Lucy Parker. Standing (left to right): Anna Rushing, Maria Cole, Marilyn Abrams, John Lipscomb.



Seated (left to right): Larissa Huff, Mandy Bailey. Standing (left to right): Dana Dale, Charlene Counts, Amanda Green.



Seated (left to right): Valerie Williamson, Gardenia Logan. Standing (left to right): Cindy Polyak, Sharon Pigage, Gene Redmond.

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Seated (left to right): Diane Brown, Linda Talbert, Lisa Phipps. Standing (left to right): Mike Allinger, Lisa Stewart, Bryan Amodio, Randy Byars.



Seated (left to right): Steve Johnson, Cherrie Longshore, Nick Leventis. Standing (left to right): Larry Madern, Marcus McCollum, Nick Linenberger, Darryl Twiggs, Barry McDaniel.



Seated (left to right): Norma Lever, Trish Moorner, Sherrie McDaniel. Standing (left to right): Wayne Sams, Don Sears, Mary Milling, Randy Nolf, Eddie Sykes.



Seated (left to right): Julie Coles, Kathy Dupuy, Sherron Ellison. Standing (left to right): Brad Douglass, Tony Garner, Mickey Eller, Mike Brunner.



Seated (left to right): Irene Mattox, Henrietta Taylor, Pam Seals, Kim Corley, Elaina Julian. Standing (left to right): Edna Tucker, Sallie Barkhoff, Nakia Brown, Beth Gunter, Mia Johnson, Fain Cravens.

budget cuts enacted during the fiscal year, which resulted in reductions in the number of active employees and teachers.

- The amount of retirement benefits paid as annuities to retired members and beneficiaries (not including TERI expenses) increased 7.34 percent during the current fiscal year. The increase is due to the continued effects of 28-year retirement, an increase in the number of members electing to retire as a result of retirement incentives and state budget issues, and a 1.3 percent cost of living adjustment granted to eligible annuitants effective July 1, 2002.



The South Carolina Retirement Systems received the 2003 Leadership Recognition Award in the Communications category from the National Association of Government Defined Contribution Administrators (NAGDCA) in August. The Retirement Systems' State Optional Retirement Program and Investment Education project garnered the award.

Not present for photographs: Dorothy Wilson, Nancy Shealy, Ed Haynsworth, Phillip Parker, Allison Lawler, Len Cone, Dana Herron, Andrea Kinard, Normie Walcott, Lillian Jacob, Cindy Sharpe, Barbara Scott, Shiann Owens, Beverly Abdalla, Sharon Williams, Cheryl Jackson, Judy Newman, Phil Osbourne, Jenny Jacob, Lee Trimble, Gail Jones, Dellia Whitaker, Mike Nivens, Sara Brooks, Eileen Tate.

## Governing Board and Administration

### Governing Board - SC State Budget and Control Board

Mark Sanford, Chairman	Governor
Grady L. Patterson, Jr.	State Treasurer
Richard Eckstrom	Comptroller General
Hugh K. Leatherman, Sr.	Chairman, Senate Finance Committee
Robert W. Harrell, Jr.	Chairman, House Ways and Means Committee
Frank W. Fusco	Executive Director

### Equity Investment Panel\*

Mr. Edwin S. Pearlstine, Jr., Mr. Arthur M. Bjontegard, Jr. Mr. Blaine Ewing, III Ms. Mary M. Kennemur Mr. S. Hunter Howard	Chairman
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### Equity Investment Consultant

Mercer Investment Consulting, Inc.

### Consulting Actuary

Gabriel, Roeder, Smith & Company

### Retirement Systems Staff

Peggy G. Boykin, CPA, CRA	Director
Stephen R. Van Camp	General Counsel – Retirement Systems
Nancy E. Shealy	General Counsel – Equity Investment Panel
Travis Turner, CPA	Internal Auditor

### Administration

Dianne T. Poston	Assistant Director
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### Customer Services

Alice R. Copeland, CRA	Assistant Director
Marilyn Abrams	Manager – Customer Call Center
Jeff Argondizzo	Manager – Customer Death Claims
Lauren Chandler	Manager – Customer Annuity Claims
Donnie Fulmer	Manager – Customer Visitors' Center
Shawn Holman	Manager – Customer Field Education
Chris Pastelak	Manager – Customer Refund Claims
Joe Stone	Manager – Customer Intake
Marian Tucker	Manager – Customer Call Center
Jamella R. Williams	Manager – Customer Call Center

### Financial Services

Tammy B. Davis, CPA	Assistant Director
Sarah Niegsch, CPA	Manager – Accounting
Sharon Graham, CPA	Manager – Payroll
Maggie Hendry	Manager – Average Final Compensation

### Information Services

Michael E. Nivens	Assistant Director
Lisa M. Phipps	Information Technology Manager
Randy Byars	Information Resource Consultant

### Service Credit

Amanda J. Green	Assistant Director
Lee Trimble	Manager – Service/Imaging
Sharon Pigage	Manager – Service Audit



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